ECONOMIC OUTLOOK

INSTITUTIONAL USE ONLY

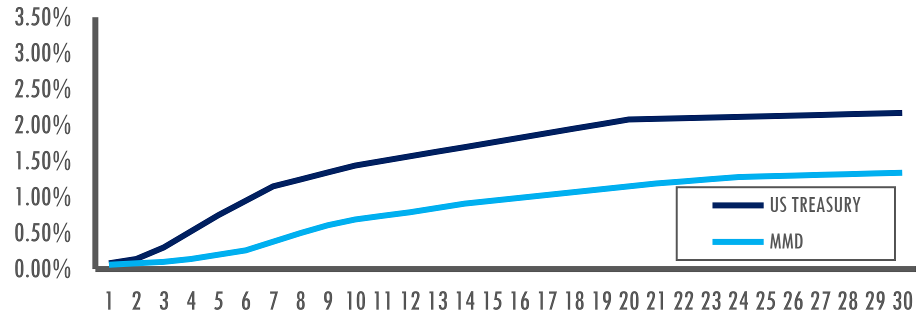
MARKET UPDATE

- The rise in Treasury yields remained the main narrative this week as investors continued to assess the impact on corporate earnings and valuation.
- The Treasury yield stabilization remained a major theme of the week as the curve flattened after a recent steepening.
- Both Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen's testimonial before Congress reflects little danger of an overheating economy. On the other hand, the week's economic data showed downward surprises mainly due to worsening winter conditions in February.
- The existing home sales declined 6.6%, almost double the expectations, while new home sales plunged 18.2%, roughly triple consensus estimates. Headline durable-goods orders contracted against expectations for a gain, with core capital goods orders declining 0.8% against estimate for a 0.5% rise.
- Inflation data remained muted as the core (excluding food and energy) personal consumption expenditures index increased by 1.4% y/y in February, in-line with consensus estimation and well below the Fed's target of 2%.
- On the positive side, initial jobless claims dropped more than expected and reached one year low of 684K. Against this backdrop, major stock market indexes closed mixed and the 10yr Treasury yield retraced to 1.67% after reaching 1.73% last week. Strong buying from Asia supported investment-grade bonds and stable 10yr Treasury yield added to high yield bond performance.
- The 2s/10s Treasury yield spread tightened by 3bps to close at 153bps during the week. The 2yr and 5yr yields tightened by a bp and 2bps to settle at 0.13% and 0.86%, respectively. Consequently, the 10yr and 30yr yields tightened by 4bps and 6bps to settle at 1.67% and 2.37%, respectively.
- The 2yr FRN and 2yr Note auction received a solid response with the coverage of 3.25x, 2.54x, respectively. While, the 5yr and 7yr Notes auction received a tepid response with coverage of 2.36x, and 2.23x, respectively. No new actions are scheduled for this week.

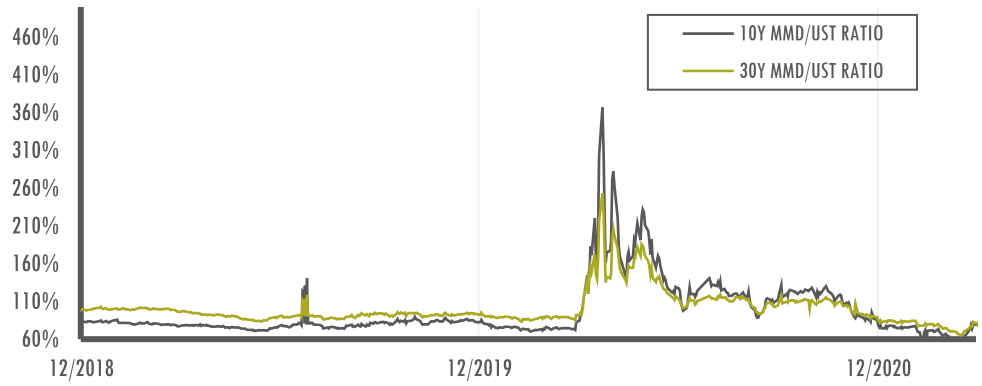
CONSENSUS ECONOMIC PROJECTIONS*

	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22
Fed Funds (%)	0.25	0.25	0.25	0.25	0.25	0.30
3M LIBOR (%)	0.24	0.17	0.22	0.24	0.28	0.32
2Y T-Note (%)	0.12	0.16	0.20	0.25	0.31	0.39
10Y T-Note (%)	0.92	1.37	1.52	1.58	1.67	1.76

AAA MMD/ TREASURY YIELDS**



HISTORICAL TAX-EXEMPT/TAXABLE RATIO**



*SOURCE: BLOOMBERG, AS OF 3/29/2021 **SOURCE: TM3 MMD

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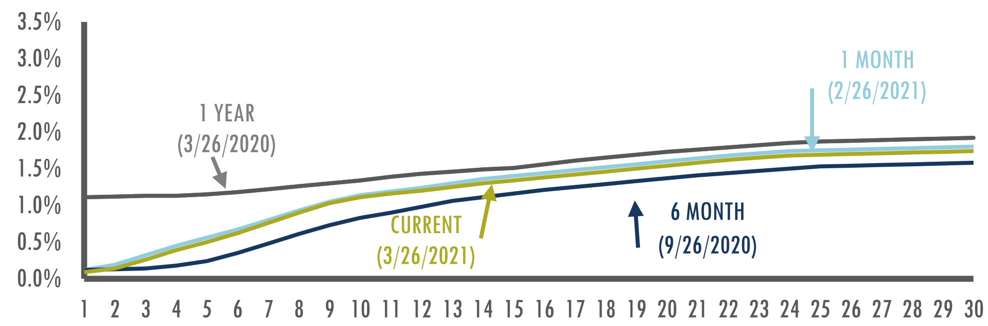
WEEKLY RECAP

- Municipal bonds saw another week of firm trading as technicals remain strong and tax-exempts mostly outperform the U.S. Treasury market.
- The primary and secondary market saw strong receptions from the cash heavy accounts, as investors continued to put their money to work.
- Treasuries saw flight to quality trading to start the week which trickled into the municipal market with yields decreasing 5bps across the curve last week.
- The taxable market continues to see spreads tight and demand high as cross-over buyers remain active.
- Demand remains strong up and down the curve, but the front end remains the most active causing yields to compress to similar levels for tax-exempt and taxable debt in the first few years of the maturity curve.
- This week's issuance will remain low, with the holiday week, but the continued inflows along with the quarter end spending will keep accounts active
- Inflows did decrease slighting last week, but as issuance remains below average the supply vs demand imbalance remains in play and the competitive market has seen strong competitive bidding over that past few weeks as investors continue to search for investment opportunities.
- States and local issuers are continuing to see positive spread movement from the Stimulus Package as lower rated credits are seeing spreads compress the most since the start of the pandemic.
- This week we saw inflows decrease with $592 million of inflows for the week ending March 24th. This comes after multiple weeks of inflows over the $1 billion mark. High yield muni funds saw inflows decrease this week but remain positive with $256 million reported. The four-week moving average now at $587 million.
- This week’s new issuance calendar is set to price below the weekly average with only $3.25 billion expected. The market will be made up of mostly tax-exempt deals with $2.29 billion and 0.963B of taxable issuance.

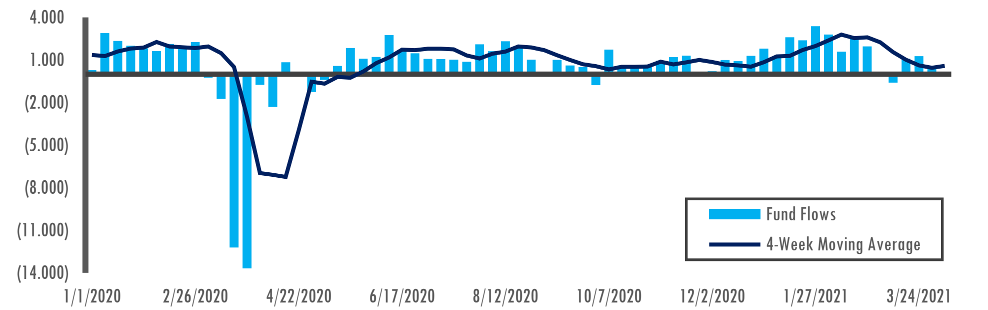
WEEKLY & MONTHLY CHANGES*

	AAA MMD			US TREASURY		
MATURITY	26-Mar	1 WEEK CHANGE	1 MONTH CHANGE	26-Mar	1 WEEK CHANGE	1 MONTH CHANGE
2-year	0.14%	-7	-5	0.14%	-2	0
5-year	0.50%	-7	-6	0.85%	-5	10
10-year	1.11%	-5	-3	1.67%	-7	23
30-year	1.74%	-5	-6	2.37%	-8	20

HISTORIC AAA MMD YIELDS*



MUNICIPAL BOND FUND FLOWS ($BN)**



*SOURCE: TM3 MMD **SOURCE: BOND BUYER